
A NEW ERA
GROWTH
INCOME FUND
FOREMOST
diversification

2001

FINANCIAL HIGHLIGHTS

For the years ended December 31,	2001	2000
Revenue	50,163,000	43,834,000
Net income	8,553,000	2,138,000
Per trust unit/share	1.58	0.39
Cash flow from operations	9,640,000	4,494,000
Per trust unit/share	1.78	0.83
Capital expenditures	449,000	1,816,000
Working capital	18,850,000	16,875,000
Total assets	36,519,000	33,424,000
Long term debt	1,933,000	2,733,000
Equity	24,309,000	22,948,000

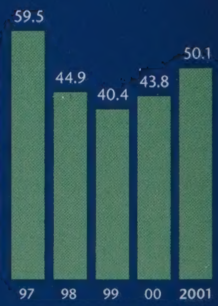
.an outstanding

CORPORATE PROFILE

Foremost Industries of Calgary, Alberta Canada maintains its standing as an innovative, leading edge, technology driven manufacturing company. Proudly serving the energy, waterwell, construction and tourism industries both domestically and internationally through the sales, manufacture and supply of: heavy off-road vehicles, drilling rigs, drilling accessories and tooling, and consumable parts which are well supported by superior technical service.

Common Trust Units of the Foremost Industries Income Fund trade on the Toronto Stock Exchange under the symbol FMO.UN.

SECURITYHOLDERS' EQUITY
For the years ended December 31 ($millions)



REVENUE FROM CONTINUED OPERATIONS
For the years ended December 31 ($millions)

TABLE OF CONTENTS

LETTER TO UNITHOLDERS

The year 2002 opens a new era for Foremost and its investors. Income before taxes of $8.6 million in 2001 was the best operating performance in the history of the Company. The restructuring in 1999 has rejuvenated the traditional strength of Foremost ... the strength of its people, its products and its reputation. Also in 2001, Foremost converted into Foremost Industries Income Fund (TSE symbol FMO.UN), a mutual fund trust. This new legal structure allows for tax efficient distributions of cash to unitholders. Today we see a revitalized, profitable Foremost that is positioned for growth and structured to add value to investors.

The financial rebound since 1999 has been dramatic. Cash improved by $8.5 million in 2001 and $16.9 million since the end of 1999. These cash increases occurred even after a net disbursement of $1.6 million for the redemption of shares and a $5.0 million cash distribution to unitholders. At the end of 2001, the Fund held $9.6 million of cash, net of liabilities for customer deposits.

The conversion of Foremost into a mutual fund trust is intended to bring added value to investors. At the end of 2001 the Fund distributed $1.00 per unit of cash to all unitholders. The Trustees have recently resolved that the Fund will now make distributions quarterly. Further, the Trustees have resolved to set this amount, initially at $.70 per unit, per annum. The cash payout amount is not intended to be equal to the income amount earned by the Fund. Instead, the distribution is set at a rate which the Fund can sustain, good years and bad, with the objective to try to increase payout amounts each year. The payout amount translates into an annual cash yield of 21.2% based upon an average TSE trade value of $3.30 per unit in the first quarter of 2002. The Fund's new structure should enhance the profile for FMO.UN units as compared to previous FMO shares. We anticipate the Fund should distinguish itself with its proposed strong cash yields. Previously FMO shares received little attention as a "micro-cap" industrial that fell outside a definable industry sector.

success

With the conversion to a Fund, Foremost's Board structure has changed. A Board of Trustees was formed to govern Foremost Industries Income Fund. Former Foremost Directors, Messrs. James T. Grenon and Roy H. Allen were joined by Mr. Bruce J. Maclennan to form the new Board of Trustees for the Fund. Former Foremost Board members, Messrs. Glen E. Swail and Ken L. Rogers are joined by Mr. Richard B. Kuzyk to form the new Board of Directors for the General Partner that conducts the business of Foremost Industries Limited Partnership. The LP is the primary operating asset of the Fund, and the Fund is the limited partner.

Mr. John H. Nodwell, the founder of Foremost, has chosen to step down after having served on the Foremost Board since its inception. Mr. Nodwell will continue as an officer of the General Partner. We wish to acknowledge, and thank Mr. Nodwell for his contributions and commitments to the Board all these years.

Collectively, the new Board of Directors and Trustees shall work to build on the fundamental strengths of the Fund with a clear objective to increase operational cash flow available for distribution to unitholders. Within this general mandate the Board of Directors and the Trustees have distinct roles. The Board shall govern the operations of Foremost Industries LP with a primary emphasis on internal growth of Foremost's existing product lines. The Trustees shall provide the strategic direction for the Fund with an emphasis on increasing and diversifying the businesses of the Fund.

The Trustees envision the Fund owning several synergistic yet distinct LP business units. These business units may service different industries but would be based upon the similar success factors of excellence in design and manufacturing. With this vision in mind, the Trustees, drawing on the operational strength of the Board and the Management of the LP, will review potential opportunistic acquisitions. However, there can be no assurance that an acquisition will be made in 2002.

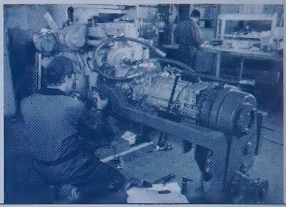
We believe the accomplishments of 2001 provide great benefits to investors. Foremost's improved financial performance, coupled with regular cash distributions and a higher TSE profile, should result in good cash yields and long term increases in unit trading values. Additionally, the accumulated cash reserve provides resources to pursue acquisitions that can further improve the profitability of the Fund. Foremost Industries Income Fund is positioned to offer investors above average growth and income opportunities.

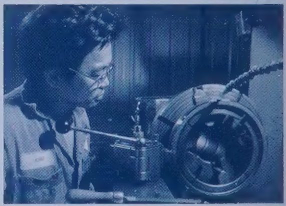
On behalf of the Board of Trustees,

James T. Grenon

Roy H. Allen

REPORT ON OPERATIONS





2001, AN OUTSTANDING SUCCESS

The year was an outstanding success. Accomplishments during the year included: record profits, a transition to a Mutual Fund Trust and record cash distributions to investors. "Income before taxes" in 2001 was $8.6 million, the highest result in Foremost's history. Unitholders received a $5.0 million cash distribution or $1.00 per unit in the year, the highest single year distribution/dividend ever, and the first cash distribution/dividend made to investors since 1989. Indeed, the cash distribution in 2001 nearly doubles the aggregate cash distribution/dividend amounts distributed to investors in the Company's thirty-seven (37) year history.

CONVERSION TO A MUTUAL FUND TRUST

2001 saw the successful conversion of Foremost Industries Inc. into Foremost Industries Income Fund (the "Fund") through a Plan of Arrangement approved by Foremost shareholders on December 18, 2001. The underlying business remains unchanged, however the legal structure in which the business now operates has changed. Under the plan, shareholders of Foremost Industries Inc. had the option to convert their shares into the new units of Foremost Industries Income Fund, or to redeem their shares for cash. All unitholders of the Fund, immediately after the effective date of the Plan of Arrangement, were previous shareholders of the Corporation, who elected to convert their common share holdings to trust units. The conversion saw the Foremost business transfer:

From: Foremost Industries Inc. - a limited liability corporation, publicly traded on the Toronto Stock Exchange (TSE) under the trading symbol - FMO,

To: Foremost Industries Limited Partnership - a limited partnership owned by Foremost Industries Income Fund, a trust publicly trading on the TSE under the trading symbol FMO.UN.

A full legal description of this Plan of Arrangement can be found in the Management Information Circular dated November 16, 2001. Support for the restructuring received overwhelming endorsement from the shareholders. Ninety-three percent (93.0%) of the shareholders casting their vote approved the Plan of Arrangement to restructure the Company into a Mutual Fund Trust.

Pursuant to the Declaration of Trust, no Canadian Income Tax is paid by the Fund, as taxable income flows directly to investors. Unitholders can either defer this allocated income by holding their investment in tax deferred structures such as Registered Retirement Savings Plans (RRSPs), or alternatively pay tax in the year the income is allocated.

In 2001, the Fund allocated $1.35 per unit of taxable income to unitholders, $1.00 per unit or 74% of this income was distributed in cash, and the balance was distributed by way of a partial unit distribution and consolidation. The net result is that unitholders received, for each unit held on December 31, 2001, a $1.00 cash distribution, and a $.35 increase in the adjusted cost base (cost for tax purposes) of their FMO.UN investment. Unitholders must include the full $1.35 per unit in their taxable income for 2001 unless they held their investment inside a tax deferred structure such as an RRSP.

Financial Statements have been prepared on a continuing entity basis. All comparative information for the 2001 financial results for the Fund are prepared on a comparative basis to the prior year financial results of Foremost Industries Inc. Management believes this treatment is the most meaningful and reflects the economic reality of the new Mutual Fund Trust structure.

OPERATIONS

Record operating results in 2001 have confirmed that Foremost's downsized operational structure is capable of supporting increased sales activity. Since 1999, Foremost has: closed its 40,000 square foot manufacturing plant in Reno, Nevada; discontinued all rig manufacturing in the Indianapolis, Indiana plant; and, shut down its sales division in Chile. Overhead costs have decreased from $19.8 million in 1998 (the last full year of activity prior to the downsizing) to $10.3 million in 2001. Capital asset amortization costs have decreased from $2.0 to $1.0 million over the same period. Despite the plant closures Foremost effectively services its traditional markets with a leaner overhead structure.

Furthermore, this downsizing did not undermine Foremost's long-term product mix strategy. Since 1998, with the acquisition of Drill Systems, Foremost began to diversify its product lines into drilling equipment, and moved away from its former dependence on off-road vehicles. Both the Indianapolis and Reno facilities were acquired as part of this diversification strategy. The revenue diversity enjoyed in 2000 and 2001 has demonstrated that the Company's product diversification strategy has not been undermined by these plant closures.

In early 2000, the Company introduced specific management processes to co-ordinate the functions of selling, engineering and production. Calgary's ability to meet manufacturing capacity demands can be attributed to the success of these initiatives. Much of Foremost's production includes a strong engineered to order (ETO) component. These ETO projects are inherently difficult to control with each project requiring detailed inter-department management and co-ordination. Additionally, management processes were introduced to better monitor and manage plant throughput and production schedules. Foremost has experienced a significant, measured improvement in on-time delivery, cost and quality control. There has also been an improvement in technical risk management.

MARKET OUTLOOK

The market outlook for Foremost indicates continued success and prosperity. This optimism is based upon the strength and diversity of the Company's product mix. Often investors and analysts are confused or misunderstand the dynamics of Foremost's product mix. Foremost cannot be categorized by one key product line. No single product, or even group of products can "define" Foremost. Understanding is better achieved by viewing the diverse products as that of a well-diversified investment portfolio. Foremost's sales mix crosses many industries, products and geographic regions throughout the world. Although many core products generate relatively predictable revenues year over year, other product lines, often servicing niche markets, will produce inconsistent revenues from one year to the next. In certain years, like 2001, a non-core product line generated large "windfall" revenues to supplement the core revenue. Historically, all years enjoy some sales in these non-core lines, yet the actual products sold will often change significantly from one year to the next.

This product diversity provides a resilience to Foremost's revenue base over various economic cycles. Revenues have exceeded $40.0 million in every year since 1994 despite significant economic swings of some of the traditional industries or regions served by Foremost (i.e. energy and mineral exploration sectors, or Russia). Revenue has remained strong even during and following the restructuring and downsizing in 1999. A $40.0 million base revenue is significant when compared with the "approximate revenue break-even" schedule included in the 2000 Annual Report that suggested that the break-even revenue is approximately $35.0 million.

The product mix consists of three discernable sub-groupings:

1. The first group consists of the after-market support consisting of Parts & Service, Tooling and Rental. These sub-groups service prior equipment sales. These stable segments have consistently provided annual revenues in the $18.0 to $20.0 million dollar range. Sales in this category cross into all geographic, product, and industry markets. Foremost is actively promoting and developing these market segments and anticipates steady though modest annual growth in sales.

2. The second group consists of several drilling rig product lines that produce repetitive and relatively predictable year over year sales. The Company's Dual Rotary drill line for the waterwell and construction industry fall into this category, and to a lesser extent, the Mobile Drill line for environmental, seismic and geotechnical industries. This product group will traditionally vary between $10 to $15 million in sales from year to year. The Company is actively developing and expanding these core product lines in Calgary and anticipates 20% overall growth. It is expected that the Mobile Drill line will see further declines as this market matures. Declines in the Mobile product sales will not have a material impact on Foremost's overall sales.

3. The final segment includes all other Foremost products and Engineered-to-Order manufacturing projects. This "other" segment will vary greatly from year to year. In this category are the large "windfall" sales that significantly improve the profitability of the year in which the revenue is booked. This segment includes: large vehicle sales to Russia or the North American arctic; specialty rigs such as Coil Tubing Rigs for the energy sector; mineral exploration drills or any of the many other specialty Foremost drills or vehicles. In 2001, the Company realized revenues in this category of $15.0 million for vehicle sales to Russia, as well as over $1.0 million in specialty equipment to the Energy Sector. In 2000, the Company enjoyed nearly $5.0 million of revenue from specialty drills to the energy sector, and $6.0 million of revenue from vehicles destined for the arctic.

   There is often very little similarity in the make-up of products sold within this category from one year to the next; however, the category does generate significant revenue annually, though the associated industry markets are erratic and unpredictable by nature. The number and diversity of products within this category offset the randomness of sales of any one product. These revenue sources, in aggregate, traditionally generate sales annually in the $5.0 to $20.0 million range.

Over the last few years, Foremost has become proficient at managing these three separate business groups. Each group possesses a distinct risk and reward profile which demand different management styles. Foremost's ability to effectively manage these diverse revenue groups is a major factor contributing to its success.

Accomplishments in the year: record profits, record cash distributions, significant measured improvements in on-time delivery, cost and quality control, plus the conversion to a Mutual Fund Trust.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The year 2001 proved to be an outstanding success for Foremost in the new "mutual fund trust" structure. Foremost realized a net income before income taxes of $8.6 million in 2001 as compared to $3.4 million in 2000. The Net Income for 2001 represents the highest operating income in the history of Foremost.

This financial success has strengthened Foremost's balance sheet in the year. Cash held by Foremost increased by $8.5 million in the year and $16.9 million cumulatively over the last two years. Total bank debt was reduced to $1.9 million. Total book value increased to $4.86 per unit at the end of 2001 from $4.24 per share in 2000. In addition to this $.62 increase in book value per unit, unitholders received a $1.00 per unit cash distribution at the end of 2001.

FOREMOST BALANCE SHEET

• total book value increased to $4.86 per unit • working capital $18.9 million

REVENUE

Overall revenue increased from $43.8 million in 2000 to $50.2 million in 2001, representing an increase of 15%. The revenue mix for 2001 varied significantly from 2000. Some of these changes are indications of longer-term trends, other changes reflect the natural ebb and flow of Foremost's product mix. Revenues were bolstered by the decline in value of the Canadian Dollar compared to the U.S. dollar as all foreign sales are denominated in U.S. dollars.

Vehicles – Revenue $16.3 million / 261% increase from 2000

A large Russian contract for 18 Chieftain D tracked vehicles ordered by Surgutneftegaz, a major Siberian oil and gas producer created the largest impact on sales during the year 2001. This Chieftain D contract marks the first large contract from the former Soviet Union since the devastation caused to the Russian economy by the foreign loan defaults in 1998. The Russian economy has strengthened considerably since that time, driven by its primary industries, particularly the oil & gas sector. Although Foremost is confident that further large sales into Russia will occur, as always, the timeline for closing large contracts is uncertain and can often run to many years.

Drills – Revenue $15.0 million / 21% decline from 2000

Foremost has experienced a decline in revenues booked for drill sales in 2001 when compared to 2000. This product category includes the Foremost Dual Rotary line of drills, the Mobile line of rigs sold out of Indianapolis plus other specialty drill rigs including custom engineered-to-order (ETO) projects such as Coil Tubing Rigs (CTR) manufactured for the energy sector.

The decrease in CTR revenues booked, when compared to 2000, is the biggest cause for the decline in revenue within this category. This decline is misleading as Foremost had entered contracts to manufacture a greater number of Coil Tubing Rigs in 2001 than in the prior year.

Foremost was contracted to build four rigs in 2000 and completed four. In 2001, Foremost entered into contracts to manufacture five CTR rigs but was scheduled to deliver only one unit. The remaining four CTRs will be delivered in the first half of 2002 and therefore revenue recognized in 2002 as per the Company's accounting policy. The manufacturing process for CTRs requires many months to complete. The design of each CTR is specific to an individual customer, and consequently each design demands significant design-engineering efforts before manufacturing can begin. Foremost's reputation continues to grow as a high quality supplier for these challenging ETO projects. In the last three years, Foremost has obtained CTR manufacturing contracts from four different drilling companies.

The Dual Rotary (DR) line of drills continues to show growth, as this product gains wider acceptance and recognition in the marketplace. The unique features of the DR provides significant operating and cost advantages to operators drilling in certain difficult drilling conditions.

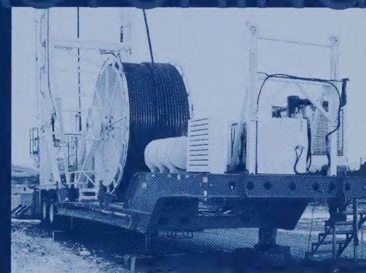
The Mobile drill rig line has suffered declines due to competitive pricing pressures. This pressure is common in a mature marketplace where little product differentiation exists between several competitors in the market. Foremost has addressed the decreasing margins in this market and now declines orders where margins are too thin to support a viable business. Since 2000, Foremost has manufactured the Mobile drills in Calgary. Overheads dedicated to Mobile rig sales have been downsized in response to the market decline.

Tooling & Pipe – Revenue $8.5 million / 11% decline from 2000

Tooling & Pipe saw declines during the year. Within this category are: mining tools that saw modest growth in the year; auger sales in Indianapolis that experienced slight declines; and, reverse circulation (RC) pipe sales that encountered sharp declines in the year. The sale of augers in Indianapolis was affected by the overall decline in sales of Mobile Drill rigs. Reduced RC pipe sales, however, contributed most to the overall decline in this category. The reduction in RC pipe revenue was caused by an industry decline in mineral exploration, the traditional market for this pipe.

excellence

in DESIGN & MANUFACTURING



STRENGTHS

• total bank debt reduced to $1.9 million • debt to equity ratio 0.5:1

Parts & Service – Revenue $9.5 million / 19% increase from 2000

The Parts & Service department continued to provide a solid revenue base for Foremost. Calgary based sales of vehicle and drill parts enjoyed a modest growth with Calgary's service revenue improving greatly from 2000. Service activity increases were partially driven by a number of larger repair jobs for coil tubing rigs for an energy sector customer. Mobile part sales in Indianapolis were up slightly for the year.

Rental – Revenue $.8 million / 28% decline from 2000

A long term operating rental agreement, for all-terrain vehicles, with a large Oil Sands consortium in northern Alberta dominated rental revenue in 2001. This rental revenue declined 15% in 2001 due to a reduction of the size of the rental fleet. There was no meaningful rental revenue in Indianapolis following the disposal of the Mobile rental fleet in 2000.

CONTRIBUTION MARGIN

Contribution margins rose in 2001 to 41.7% from 35.3% in 2000. This increase was partially driven by a general decline in the Canadian dollar when compared to the U.S. dollar. A weaker Canadian dollar provides Foremost with increased revenues for the significant portion of sales denominated in U.S. dollars. Additionally, Foremost enjoyed a product mix in the year that provided a greater component of higher margin business. This product mix was influenced by the decline of some lower margin sales, particularly in the Mobile line of drills, and the increases of relatively higher margin revenue in areas such as Vehicles, and Parts and Service. Overall, margins reported on the income statement will vary from year to year based upon the specific blend of products sold within that particular year.

Contribution margins reflect the difference between revenue and direct cost, excluding any overheads. All plant overheads are included in selling, general and administrative.

OVERHEAD

Overheads increased from $10.2 million in 2000 to $10.3 million in 2001. The overhead structure is largely unchanged since 2000. The increase is mainly caused by larger incentive based renumeration to employees, including commissions and bonuses that are based upon corporate profitability.

INTEREST EXPENSE AND DEBT

Interest expense decreased from $.5 million in 2000 to a $.1 million recovery in the current year. This change is the result of Foremost's reduction of long-term debt and the elimination of an outstanding balance on the operating line of credit. Foremost was in a positive cash position throughout the year. These funds were all invested in money accounts or Bankers Acceptance to earn interest. The interest income reported for the year was reduced by any interest expense.

AMORTIZATION

Amortization in the year has declined by $.5 million from 2000. Prior year amortization included a rental fleet of drills in Indianapolis, which was largely disposed of by the end of 2000. Additionally, certain assets were amortized to their residual value in 2000 and consequently did not require amortization in 2001.

FOREIGN EXCHANGE GAIN

A foreign exchange gain of $.3 million in 2001 was comparatively unchanged from 2000. Foremost continued to enjoy the benefit from the general trend of a weakening Canadian dollar throughout much of the year. Foremost holds, at any time, a net U.S. working capital position wherein monetary assets denominated in U.S. dollars always exceed liabilities in U.S. dollars. For current accounts Foremost records U.S. dollar accounts receivable (and accounts payable) for any given month by the opening exchange rate for the month. This policy, coupled with a trend of a weakening Canadian dollar, resulted in foreign exchange gains.

INVENTORY WRITEDOWN

During the year ended December 31, 2001, the Company undertook a comprehensive review of the carrying value of its inventory. Through this review, it was determined that certain inventories had a permanent impairment in value largely as a result of limited sales forecasts for specific product lines which used these inventories. These inventories were written down to values which more closely approximate their net realizable value.

INCOME TAXES

As a result of the conversion of Foremost into a mutual fund Trust, all Canadian taxable income is distributed to unitholders at the end of the year and consequently there is no Canadian tax liability for the Fund. The income tax recorded in the books of account all relate to Cyprus tax liability incurred by Foremost (Cyprus) Limited.

CASH LIQUIDITY AND KEY FINANCIAL RATIOS

Foremost's overall financial strength improved substantially during the year. The cash position during the year increased by $8.5 million as compared with a similar $8.4 million increase in 2000.

Working Capital Ratio

For the years ended	2001	2000	1999
Current assets	$ 29,127,000	$ 24,225,000	$ 28,676,000
Current liabilities	10,277,000	7,350,000	14,518,000
Working Capital	18,850,000	16,875,000	14,158,000
Ratio	2.83:1	3.30:1	1.98:1

Debt to Equity Ratio

For the years ended	2001	2000	1999
Total debt	$ 12,210,000	$ 10,476,000	$ 17,718,000
Equity	24,309,000	22,948,000	20,810,000
Ratio	0.50:1	0.46:1	0.85:1

Book Value per Unit/Share

For the years ended	2001	2000	1999
Book value	$24,309,000	$ 22,948,000	$ 20,810,000
Shares outstanding	5,000,213	5,413,271	5,413,271
Book value per unit/share	$ 4.86	$ 4.24	$ 3.84

CREDIT FACILITIES

Foremost has an available credit facility with the Toronto-Dominion Bank. This facility provides for an operating line of up to a maximum of $6.0 million. This operating line of credit is limited by financial covenants, including margin ratios for acceptable accounts receivable and inventory, debt service ratios, and working capital requirements. At year-end, Foremost had no funds drawn against this operating line.

Also, under the terms of the credit facility, Foremost may borrow up to $4.0 million under a term loan facility. Foremost is obligated to retire this loan through minimum monthly principal and interest payments before May 30, 2005. At December 31, 2001, the outstanding principal on this loan was $1.9 million. Foremost has paid in advance all of the monthly principal obligations until January 2003.

As at December 31, 2001, Foremost is compliant with all financial covenants of the credit facility. Furthermore, at year-end Foremost had adequate security based upon these financial covenants to support draws up to the maximum credit limit set in the loan facility.

RISKS AND UNCERTAINTIES

A substantial portion of the Foremost business is conducted in foreign markets with the currency typically in U.S. dollars. This includes not only sales of Foremost's products, but also the purchase of a substantial portion of the components required to manufacture products. This heavy dependence on U.S. currency for both sales and purchases exposes Foremost to some risks of currency fluctuations. Where possible, significant foreign exchange exposure will be hedged through the purchase of foreign exchange contracts with a major chartered bank. Foremost's contribution margins are at least partially influenced by fluctuations in exchange rates. A permanent strengthening of the Canadian versus U.S. currency would result in a decline in the margins enjoyed on US dollar denominated sales.

A major portion of revenue is earned from foreign customers susceptible to political and economic forces. Associated risks are mitigated for larger contracts with contractual credit terms that require a considerable cash deposit and/or letter of credit to guarantee payment of contract amounts. Additionally, in many cases, Foremost utilizes the Export Development Corporation ("EDC") to insure foreign contracts and receivables. However, if a situation requires reliance on EDC coverage, collection can be postponed significantly and may be less than the total contract price.

From time to time, Foremost develops new, specialized products that have inherent risks that include:

1. Technical risk that either the product does not perform as desired or that there are unacceptable reliability issues that may render the new product un-merchantable.
2. Supplier risk that modules, components and engines procured from third party vendors, that are used in the assembly of Foremost products, do not perform in an acceptable manner thereby having an adverse impact on Foremost's product liability.
3. Commercial risk that cost over-runs result in the product being a financial drain on Foremost.

Foremost has undertaken a program, driven by a management committee, to review and evaluate all new product development, with the objective that Foremost only undertakes new product development projects when the risk/reward trade-off is acceptable. Since adopting this program in 2000, Foremost has managed these risks very effectively and experienced no significant financial loss.

MANAGEMENT'S REPORT

TO THE UNITHOLDERS OF
FOREMOST INDUSTRIES INCOME FUND
(a continuation of Foremost Industries Inc.)

The consolidated financial statements of Foremost Industries Income Fund and other financial information included in this annual report have been prepared by Management. It is management's responsibility to ensure that sound judgment, appropriate accounting principles and methods, and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent.

Management is also responsible for developing internal controls over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy. Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of financial reports. Management also believes that Foremost's operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Committee, which consists of non-management trustees, reviews the financial statements and annual report, and recommends them to the Board for approval. The Committee meets with management and external auditors to discuss internal controls, auditing matters and financial reporting issues. External auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the unitholders.

FOREMOST INDUSTRIES INC.
(General Partner for Foremost Industries LP)

K Rogers

Ken L. Rogers, President
Calgary, Alberta
May 2002

AUDITORS' REPORT

TO THE UNITHOLDERS OF
FOREMOST INDUSTRIES INCOME FUND
(a continuation of Foremost Industries Inc.)

We have audited the consolidated balance sheet of Foremost Industries Income Fund (a continuation of Foremost Industries Inc.) as at December 31, 2001 and the consolidated statements of income and equity, cash flows, distributable cash, and cumulative cash distributions for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 16, 2001.

Collins Barrow Calgary LLP

Collins Barrow Calgary LLP
CHARTERED ACCOUNTANTS
Calgary, Alberta
March 1, 2002

CONSOLIDATED BALANCE SHEETS

Years ended December 31,	NOTES	2001	2000
ASSETS			
Current assets			
Cash		$ 14,467,000	$ 5,984,000
Accounts receivable		2,522,000	3,685,000
Income taxes receivable		311,000	851,000
Inventories	4	11,827,000	13,222,000
Current portion of future income taxes	5	–	483,000
		29,127,000	24,225,000
Long term receivable		89,000	240,000
Capital assets	6	7,303,000	8,959,000
		$ 36,519,000	$ 33,424,000
LIABILITIES AND SECURITYHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 5,392,000	$ 6,300,000
Customer contract deposits		4,885,000	1,050,000
		10,277,000	7,350,000
Long term debt	8	1,933,000	2,733,000
Future income taxes		–	393,000
		12,210,000	10,476,000
Securityholders' equity			
Share capital		–	6,771,000
Retained earnings		–	16,177,000
Trust unit equity	9	24,309,000	–
		24,309,000	22,948,000
		$ 36,519,000	$ 33,424,000

Approved by the Board of Trustees

James T. Grenon, Trustee

Roy H. Allen, Trustee

CONSOLIDATED STATEMENTS OF INCOME AND EQUITY

Years ended December 31,	NOTES	2001	2000
Revenue		$ 50,163,000	$ 43,834,000
Cost of sales		29,263,000	28,339,000
		20,900,000	15,495,000
Selling, general and administrative		10,321,000	10,164,000
Interest expense (income)		(67,000)	483,000
Amortization		1,031,000	1,535,000
Foreign exchange gain		(252,000)	(329,000)
Inventory writedown	4	1,270,000	262,000
		12,303,000	12,115,000
Earnings from operations		8,597,000	3,380,000
Gain on disposal of capital assets		(34,000)	(5,000)
Earnings before income taxes		8,631,000	3,385,000
Income taxes	5	78,000	1,247,000
Net income		8,553,000	2,138,000
Equity, beginning of year		22,948,000	20,810,000
Change in common trust units/shares in year	9	(7,192,000)	–
Equity, end of year		$ 24,309,000	$ 22,948,000
Earnings per trust unit/share	10		
Basic		$ 1.58	$ 0.39
Diluted		$ 1.54	$ 0.39

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	NOTES	2001	2000
Cash flows from operating activities			
Net income		$ 8,553,000	$ 2,138,000
Add (deduct) items not involving cash			
Amortization		1,031,000	1,535,000
Gain on disposal of capital assets		(34,000)	(5,000)
Future income taxes		–	826,000
Other non-cash items		90,000	–
Cash flows from operations		9,640,000	4,494,000
Changes in non-cash working capital	12	6,025,000	6,579,000
Cash flows from operating activities		15,665,000	11,073,000
Cash flows from investing activities			
Purchase of capital assets		(449,000)	(1,816,000)
Proceeds from sale of assets held for disposal		–	3,319,000
Proceeds from sale of capital assets		1,108,000	1,459,000
Cash flows from investing activities		659,000	2,962,000
Cash flows used in financing activities			
Issuance of common shares		53,000	–
Common shares redeemed		(2,723,000)	–
Trust restructuring costs		(482,000)	–
Issuance of trust units		960,000	–
Distributions to unitholders		(5,000,000)	–
Long term receivable		151,000	(240,000)
Long term debt repayments		(800,000)	(5,397,000)
Cash flows used in financing activities		(7,841,000)	(5,637,000)
Net increase in cash		8,483,000	8,398,000
Cash (bank indebtedness), beginning of year		5,984,000	(2,414,000)
Cash, end of year		$ 14,467,000	$ 5,984,000
Supplemental disclosure of cash flow information			
Interest paid		$ 274,000	$ 569,000
Income taxes paid		$ 876,000	$ –

CONSOLIDATED STATEMENT OF DISTRIBUTABLE CASH

Years ended December 31,	NOTES	2001
Net income		$ 8,553,000
Adjustments for:		
Amortization		1,031,000
Gain on disposal of assets		(34,000)
Other non-cash items		90,000
		$ 9,640,000
Amounts retained by the Fund for:		
Redemption of shares		2,723,000
Sustaining capital expenditures and working capital		1,917,000
		4,640,000
Total distributable cash earned and distributed for the year	9	$ 5,000,000
Actual cash distributions per unit		$ 1.00

CONSOLIDATED STATEMENT OF CUMULATIVE CASH DISTRIBUTIONS

Years ended December 31,	2001
Cumulative cash distributions, beginning of year	$ –
Actual cash distributions for the year	5,000,000
Cumulative cash distributions, end of year	$ 5,000,000

NOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

1. FORMATION OF THE FUND

Foremost Industries Income Fund (the "Fund") is an unincorporated open end mutual fund trust established under the laws of the Province of Alberta by a Declaration of Trust made as of November 14, 2001. The Fund was established to invest in securities of the Foremost Industries Limited Partnership ("Foremost LP") (note 3). Foremost LP is a continuation of the business formerly conducted by Foremost Industries Inc. Foremost LP is in the business of the design, manufacture, sales and service of heavy all-terrain vehicles and drilling equipment for the mineral exploration, waterwell, construction, transportation, energy and environmental industries.

The Fund was created as a tax-efficient structure for investors, with the tax burden of the business being shifted from the previous Corporation, Foremost Industries Inc., to the unitholders of the Fund. The Fund has an obligation, under the Declaration of Trust, to distribute all of its taxable income and realized capital gains to unitholders of record on December 15 of each fiscal year (December 31, 2001 for the first fiscal year end of the Fund).

Distribution of this taxable income can be in the form of cash or, through the issuance of additional Common Trust Units (Units). Under the terms of the Declaration of Trust, if taxable income is distributed in the form of additional Units, there will be an immediate reconsolidation of the number of Units outstanding. After the consolidation, each Common Trust Unitholder will hold the same number of Units as held before the distribution of additional Units.

The Fund owns 99.9% of Foremost LP and is allocated 99.9% of the taxable income generated from Foremost LP. Foremost Industries Inc. owns the remaining 0.1% of Foremost LP. Foremost Industries Inc., acts as the General Partner for Foremost Industries LP.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of accounting policies summarized below.

a) Principles of consolidation

The consolidated financial statements include the accounts of the Fund, Foremost LP (of which the Fund owns 99.9%), and Foremost LP's wholly-owned subsidiaries in the United States and Cyprus. The remaining 0.1% of Foremost LP is owned by Foremost Industries Inc., which acts as the General Partner.

Any subsequent reference to the Fund within the Notes to Consolidated Financial Statements refers to the consolidated Fund.

b) Inventories

Inventories are valued at the lower of cost and net realizable value, cost being defined to include laid-down cost for materials and actual cost for direct labour on a first-in-first-out basis.

c) Capital assets

Capital assets are stated at cost. Amortization of the Fund's buildings, machinery and equipment is calculated at various rates ranging from 4% to 30% according to their useful life, leaving a residual value of 5% of the original cost.

d) Product warranty provision

Based on experience factors, the Fund provides for future warranty costs relating to its products at the time the products are sold.

e) Foreign currency translation

Foreign currencies have been translated at approximate exchange rates in effect at transaction dates. Monetary items have been adjusted to reflect the year end rate of exchange while non-monetary items are translated at historical rates. The Fund's foreign subsidiaries are accounted for as integrated operations. Gains and losses arising on foreign currency transactions are charged to income.

f) Revenue recognition

Revenue is recognized on a completed contract basis.

g) Hedging activities

The financial effect of currency hedging activities, which have been arranged to reduce the Fund's exposure to fluctuations in currencies, are reflected in revenue when the hedged revenue streams are recognized.

h) Unit-based compensation plan

The Fund administers a unit-based compensation plan as described in note 9d. No compensation expense is recognized for unit-based compensation plans when options are issued, and any consideration paid for units on exercise of unit-based options is credited to Trust equity.

i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Fund may undertake in the future. Actual results could differ from those estimates.

j) Income taxes

The Fund is a Unit Trust for income tax purposes. As such, the Fund is taxed on any taxable income not allocated to unitholders. Under the terms of the Declaration of Trust, all taxable income of the Fund will be allocated to the unitholders, resulting in no Canadian tax expense for the Fund.

Income taxes are recorded using the liability method of accounting for the foreign owned subsidiaries of the Fund. Under the liability method, the change in net future income tax assets or liabilities is charged to income.

Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These future income taxes are classified as current and long-term depending upon the classification of the balance sheet items to which they relate.

k) Distributions to Unitholders

The Fund will distribute all of its distributable cash each year, net of any reserve deemed prudent by the trustees of the Fund. Distributable cash is currently determined by the Trustees as net earnings for the year of the Fund, adjusted for non-cash items including amortization and future income taxes, and further adjusted by amounts retained by the Fund to sustain capital expenditures and growth.

l) Accrued Bonus for Optionholders

The Fund accrues for a deferred bonus for officers, directors and trustees holding options (qualified optionholders) to acquire Units in the Fund. Under the terms of the Fund program, a bonus entitlement arises when a qualified optionholder exercises an option to acquire trust units. The entitlement is calculated by multiplying the number of options exercised, by the cumulative cash distribution per Unit paid to unitholders, while the options are outstanding. The obligation created by this bonus program is amortized to remuneration expense over the period the unit options become vested. The cash paid in respect of exercised unit options reduces obligation in the period the Units are exercised. During the year ended December 31, 2001 a total of $116,000 has been expensed, and no cash was paid in respect of exercised options.

3. RE-ORGANIZATION OF CAPITAL STRUCTURE

Pursuant to an Arrangement Agreement dated November 14, 2001, the Fund was established. Through a series of transactions common shares of Foremost Industries Inc. were exchanged, on a one for one basis, into common trust units of Foremost Industries Income Fund. The effective date of these transactions was December 18, 2001.

After the effective date, the Fund's ownership of Foremost LP is 99.9%, and Foremost LP owns all of the net assets previously owned by Foremost Industries Inc. The remaining 0.1% of Foremost LP is owned by Foremost Industries Inc., acting as the General Partner for Foremost LP.

As part of the Arrangement Agreement, shareholders of Foremost Industries Inc., were provided the option to:

a) receive a $4.00 cash payment for each common share held, and/or
b) receive one common trust unit for each common share held.

A total of 680,858 common shares of Foremost Industries Inc. were redeemed for cash for total consideration of $2,723,000. The remaining 4,760,213 common shares were exchanged for common trust units. The total amount redeemed for cash has been recorded as a reduction to trust unit equity.

This re-organization of the capital structure of Foremost Industries Inc., has been accounted for using the continuity of interests method of accounting, whereby the Fund is treated as a continuation of Foremost Industries Inc. The comparative figures for 2000 are the financial result of Foremost Industries Inc.

During the re-organization, the former stock options were transferred into unit options under the same terms and conditions as the predecessor stock option plan (note 9d).

4. INVENTORIES

	2001	2000
Raw materials and parts	$ 6,313,000	$ 9,185,000
Work in process	2,733,000	1,812,000
Finished goods	2,781,000	2,225,000
	$ 11,827,000	$ 13,222,000

During the year ended December 31, 2001, Foremost LP undertook a comprehensive review of the turnover and usefulness of its inventory. Through this review, it was determined that certain inventories had a permanent impairment in value. These inventories were written down to values which more closely approximate their net realizable value.

5. INCOME TAXES

Under the terms of the Declaration of Trust, all Canadian taxable income will be allocated to unitholders. No future Canadian taxes were recorded by the Fund in 2001 as there is no Canadian tax obligation.

All income tax for 2001 was incurred by Foremost (Cyprus) Limited.

The tax expense is as follows:

	2001	2000
Income taxes consist of:		
Current	$ 78,000	$ 421,000
Future	–	826,000
	78,000	1,247,000
Total income, before income taxes	$ 8,631,000	$ 3,385,000
Income subject to tax for unitholders	(6,268,000)	–
Income of foreign subsidiaries	(2,363,000)	–
Total income subject to Canadian tax	–	3,385,000
Canadian statutory income tax rate	39.0%	42.72%
Income taxes at statutory rate	–	1,446,000
Manufacturing deduction		(232,000)
Non-deductible expenses		33,000
Total Canadian income taxes	$ –	$ 1,247,000
Cypriot income taxes	78,000	–
	$ 78,000	$ 1,247,000

At December 31, 2001, the Fund had net assets that exceed its tax pools, that is comprised of the following:

Temporary differences related to warranty provisions	$ (1,171,000)
Carrying value of capital assets in excess of tax values	1,867,000
Total net assets in excess of tax value	$ 696,000

The Fund, through one of its U.S. subsidiaries, has significant U.S. non-capital loss carryforwards. No tax benefits have been recorded for these losses, as their utilization is uncertain.

6. CAPITAL ASSETS

	2001			2000		
December 31, 2001	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 903,000	$ –	$ 903,000	$ 903,000	$ –	$ 903,000
Buildings	4,509,000	1,158,000	3,351,000	4,219,000	996,000	3,223,000
Equipment	7,489,000	5,346,000	2,143,000	8,497,000	4,864,000	3,633,000
Rental assets	1,285,000	379,000	906,000	1,629,000	429,000	1,200,000
	$14,186,000	$ 6,883,000	$ 7,303,000	$ 15,248,000	$ 6,289,000	$ 8,959,000

7. BANK INDEBTEDNESS

The bank indebtedness is in the form of an operating line, repayable on demand and is secured by a floating charge debenture covering all Foremost LP assets, including accounts receivable, inventory and capital assets. This arrangement provides for an operating line up to a maximum of $6,000,000. The interest rate as at December 31, 2001 was at prime. There were no balances outstanding in respect to this line for either period ending December 31, 2000, or December 31, 2001.

8. LONG-TERM DEBT

	2001	2000
Demand term loan	$ 1,933,000	$ 2,733,000
Less: Current portion	–	–
	$ 1,933,000	$ 2,733,000

The demand term loan of $1,933,000 bears interest at prime plus 0.5%, and is repayable in monthly installments (equal principal and variable interest) until May, 2005, unless demanded. The term loan is secured by certain fixed assets. The principal repayments scheduled for 2002 were all paid in advance by the end of 2001 and no principal repayments are required until January, 2003. Interest paid on long term debt was $178,000 for 2001 compared to $187,000 for 2000.

Principal payments on long-term debt for the next four years are as follows:

2002	$ –
2003	800,000
2004	800,000
2005	333,000
	$ 1,933,000

Foremost LP also has a facility with a Canadian chartered bank whereby they can effectively fix the interest rate on a notional debt amount of up to $3.7 million for a maximum term of 5 years. At December 31, 2001, Foremost LP had a fixed rate of 5.77% per annum on the entire amount of the facility to February 2, 2003.

9. TRUST UNIT EQUITY

a) Authorized

The Fund is authorized to issue an unlimited number of Common Trust Units and 30,000 Preferred Units.

b) Issued

Common Share conversion to Trust Units

	2001		2000	
	Number	Stated Value	Number	Stated Value
Retained earnings, beginning of year	–	$ 16,177,000	–	$ 14,039,000
Share capital, beginning of year	5,413,271	6,771,000	5,413,271	6,771,000
Equity, beginning of year	5,413,271	22,948,000	5,413,271	20,810,000
Shares issued upon exercise of stock options	27,800	53,000	–	–
Shares redeemed, pursuant to reorganization (note 3)	(680,858)	(2,723,000)	–	–
Trust units from option exercise	240,000	960,000	–	–
Trust restructuring costs		(482,000)		–
Trust unit cash distribution		(5,000,000)		–
Change in common trust units/shares in year	(413,058)	(7,192,000)	–	–
Net income for the year		8,553,000		2,138,000
Trust unit equity	5,000,213	$ 24,309,000	5,413,271	$ 22,948,000

In early 2001, 200,000 warrants expired unexercised.

c) Distribution of Income to Unitholders

Pursuant to the trust indenture of the Fund, the trustees must distribute the income of the Fund for the fiscal year, determined in accordance with the Income Tax Act, to the unitholders of the Fund. If the Fund does not pay cash distributions for the total distributable amount of income, the remaining income of the Fund is distributed through additional common trust units having a value equal to the cash shortfall. As at December 31, 2001, the Fund had $6,750,000 in distributable income of which $5,000,000 was distributed in cash and the remaining $1, 750,000 was distributed through additional common trust units to the unitholders.

Immediately after any distribution of common trust units, the number of outstanding common trust units will be consolidated such that each common trust unitholder will hold the same number of common trust units as before the distribution. On December 31, 2001, a total of 437,519 common trust units were issued to distribute the remaining taxable income of $1,750,000, and were immediately consolidated.

d) Unit-based compensation plan

As part of the re-organization of capital structure (note 3), former stock optionholders received options to purchase common trust units on the same terms and conditions as the predecessor stock option plan.

The Fund has reserved 348,200 common trust units under the terms of its employee unit option plan at December 31, 2001. The exercise price of each option equals the fair market value at the date of grant. Options vest at a rate of 20%, on each of the five anniversaries of the date of grant, and expire shortly after the fifth anniversary.

A summary of the status of the plan and changes during the years then ended is presented below:

	2001			2000		
	Number of Options		Weighted Average Exercise Price $	Number of Options		Weighted Average Exercise Price $
STOCK OPTION PLAN						
Beginning of year	714,600	$	3.22	474,600	$	4.46
Granted	40,000		2.35	302,500		1.73
Exercised	(27,800)		1.89	–		–
Cancelled	(138,600)		4.37	(62,500)		5.36
Converted to trust unit options	(588,200)		2.96	–		–
Stock options, end of year	–	$	–	714,600	$	3.22
Stock options exercisable, end of year	–	$	–	142,200	$	4.64
TRUST UNIT OPTION PLAN						
Unit options, beginning of year	–	$	–			
Converted from stock options	588,200		2.96			
Exercised	(240,000)		4.00			
Unit options, end of year	348,200	$	2.24			
Unit options exercisable, end of year	55,000	$	2.92			

The following table summarizes information about the unit options outstanding as at December 31, 2001:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
$ 1.65 - $2.60	302,000	3.9 years	$	1.81	34,000	$	1.68
$3.25 - $4.00	16,200	1.9 years	$	3.48	9,000	$	3.50
$5.00 - $6.00	30,000	2.2 years	$	6.00	12,000	$	6.00
$ 1.65 - $6.00	348,200	3.4 years	$	2.24	55,000	$	2.92

10. INCOME PER UNIT

The Fund had changed its policy for calculating income per share (now Fund trust unit) effective January 1, 2001, to comply with new standards approved by the Canadian Institute of Chartered Accountants. The most significant change is that when calculating diluted income per unit, under the new treasury stock method, it is assumed that proceeds received on the exercise of "in the money" options and warrants are used to repurchase Fund units at the weighted average market price during the period whereas under the old standard, the imputed earnings method, it is assumed that proceeds received on the exercise of unit options and warrants are invested to earn an assumed rate of return.

The new standard has been applied retroactively with restatement and the effect of the change on current and prior periods, diluted income per unit is as follows:

	Treasury Stock	Imputed Earnings
December 31, 2001	$ 1.54	$ 1.50
December 31, 2000	$ 0.39	$ 0.36

A reconciliation of the denominators for the per share calculations using the treasury stock method is outlined below:

	2001	2000
Basic weighted average units	5,410,647	5,413,271
Effect of dilutive options	149,539	41,313
Diluted weighted average units	5,560,186	5,454,584

There is no change to the numerator in the calculation of diluted income per unit for either period.

At December 31, 2001, there were 45,000 unit options outstanding with a weighted average exercise price of $5.17 each. These have not been included in the calculation of diluted income per unit as the effect would be anti-dilutive.

11. HEDGING ACTIVITIES

During the year, Foremost LP had completed a foreign currency hedge transaction in the normal course of business, whereby a total of $7.5 million United States dollars were hedged at a blended rate of 1.5335 Canadian dollars for one U.S. dollar. These contracts hedged the anticipated net U.S. dollar cash inflows received on one large contract in the last quarter of the year. All obligations in respect to this hedge contract were fulfilled in the year.

12. STATEMENTS OF CASH FLOWS

	2001	2000
Decrease in accounts receivable	$ 1,163,000	$ 1,187,000
Decrease in income taxes receivable	540,000	433,000
Decrease in inventories	1,395,000	4,783,000
Increase (decrease) in accounts payable	(908,000)	3,000
Increase in customer contract deposits	3,835,000	173,000
Increase in non-cash working capital	$ 6,025,000	$ 6,579,000

13. CONTINGENT LIABILITIES

Foremost LP is involved in various legal claims arising in the ordinary course of business. It is management's opinion that these claims once settled are not expected to materially affect Foremost LP's financial position. Any costs to Foremost LP arising from these claims and suits will be charged to earnings in the year in which they occur.

14. FINANCIAL INSTRUMENTS

a) Fair values

The carrying amounts of accounts receivable and payable approximate fair value due to the near term maturity of these financial instruments. Risks associated with foreign customers are mitigated by credit terms that require considerable amounts of cash deposits and/or letters of credit to guarantee payment of contract amounts. Accordingly, where appropriate, the Export Development Corporation (EDC) insures foreign contracts and receivables.

For long term debt, interest is at a floating short-term bank rate and therefore the carrying value also represents the fair value.

b) Foreign currency risk

A substantial portion of the Fund's revenues, expenses, accounts receivable and accounts payable are denominated in U.S. Dollars, and consequently, the Fund is subject to the risk of fluctuating exchange rates to the extent these amounts are not hedged as disclosed in note 11.

15. RELATED PARTY TRANSACTIONS

Foremost LP utilized the consulting services of a company owned and managed by a trustee of the Fund. The consideration paid, or payable for these consulting services amounted to $307,000 (2000 - $282,000) and was not more than could be expected from unrelated parties. The balance owing at period end was $300,000 (2000 - $200,000).

16. BUSINESS SEGMENTS

For the year ended December 31, 2001 ($ 000's)	Calgary	Indianapolis	Cyprus	Total
Revenue	$ 26,439	$ 8,269	$ 15,455	$ 50,163
Interest expense (income)	(83)	(2)	18	(67)
Amortization	984	23	24	1,031
Segment income (loss)	6,268	(81)	2,366	8,553
Segment capital assets	6,510	745	48	7,303
Segment assets	31,894	3,862	763	36,519
Capital asset expenditures	410	28	11	449
Revenue by product:				
Vehicles	$ 1,318	$ –	$ 14,985	$ 16,303
Drills	12,455	2,569	–	15,024
Tooling and pipe	5,094	3,443	–	8,537
Parts and service	6,756	2,248	470	9,474
Rentals	816	9	–	825
Total	$ 26,439	$ 8,269	$ 15,455	$ 50,163

For the year ended December 31, 2000 ($ 000's)	Calgary	Indianapolis	Cyprus	Total
Revenue	$ 32,722	$ 10,577	$ 535	$ 43,834
Interest expense (income)	455	30	(2)	483
Amortization	1,210	303	22	1,535
Segment income (loss)	1,987	470	(319)	2,138
Segment capital assets	8,155	740	64	8,959
Segment assets	27,451	5,822	151	33,424
Capital asset expenditures	1,798	–	18	1,816
Revenue by product:				
Vehicles	$ 6,251	$ –	$ –	$ 6,251
Drills	14,047	4,854	–	18,901
Tooling and pipe	5,886	3,683	–	9,569
Parts and service	5,570	1,869	535	7,974
Rentals	968	171	–	1,139
Total	$ 32,722	$ 10,577	$ 535	$ 43,834

These results are shown net of inter-company sales which have been eliminated. In 2001, approximately $15.0 million in revenues to one customer have been included in the Cyprus segment. In 2000, approximately $8.8 million in revenues to two customers have been included in the Calgary segment.

17. GEOGRAPHIC SEGMENTS

	2001		2000	
	Revenue	Capital Assets	Revenue	Capital Assets
Canada	**$13,785,000**	**$ 6,510,000**	$ 17,803,000	$ 8,155,000
United States	**18,363,000**	**745,000**	20,536,000	740,000
Russia	**15,455,000**	–	535,000	–
Other	**2,560,000**	**48,000**	4,960,000	64,000
Total	**$ 50,163,000**	**$ 7,303,000**	$ 43,834,000	$ 8,959,000

18. SUBSEQUENT EVENT

Early in 2002, the Fund entered into agreements with various trust unit optionholders to repurchase outstanding options of up to 10,000 for each holder at $4.00 less the exercise price. Trust unit optionholders elected to accept this arrangement. This arrangement involved the settlement of 117,200 options with $147,000 being paid out in February 2002, and a second installment of $114,000 to be paid within one year of the first installment.

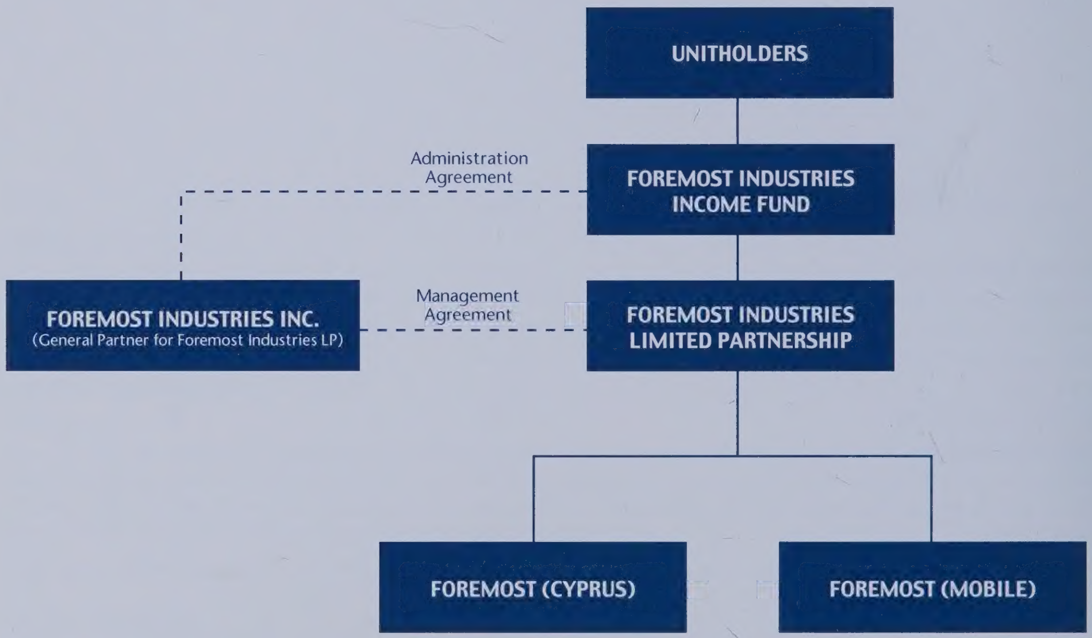
19. BONUSES

Included in Foremost LP's selling, general and administrative expenses are bonuses in the amount of $517,000 for 2000, and $1,124,000 for 2001.

20. COMPARATIVE FIGURES

Certain of the previous period's figures have been reclassified to conform to the current period's format of presentation.

FOREMOST INDUSTRIES INCOME FUND STRUCTURE



HISTORICAL REVIEW

($000s, except per unit/share amounts)	2001	2000	1999	1998	1997	1996
OPERATING RESULTS						
Revenue	$ **50,163**	$ 43,834	$ 40,388	$ 44,948	$ 59,513	$ 60,450
Income (loss) before income tax	**8,631**	3,385	(12,687)	(6,449)	2,849	4,718
Income taxes (recovery)	**78**	1,247	(1,480)	(1,852)	796	–
Income (loss) from continuing operations	**8,553**	2,138	(11,207)	(4,597)	2,053	4,718
Income (loss) from discontinued operations	–	–	–	–	7,704	1,287
Net income (loss)	**8,553**	2,138	(11,207)	(4,597)	9,757	6,005
Per trust unit/share	**1.58**	0.39	(2.07)	(0.88)	1.85	1.17
Cash flow from continuing operations	**9,640**	4,494	(6,840)	(4,627)	4,056	6,539
FINANCIAL POSITION						
Capital expenditures	**449**	1,816	1,641	3,289	6,865	1,823
Working capital	**18,850**	16,875	14,158	22,286	28,743	12,301
Total assets	**36,519**	33,424	38,528	51,999	59,267	46,921
Long term debt	**1,933**	2,733	3,200	9,594	9,633	3,095
Securityholders' equity	**24,309**	22,948	20,810	31,267	36,312	26,388

FUND INFORMATION

TRUSTEES

Roy H. Allen
President & Chairman of the Board
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TRADING SYMBOL

FMO.UN

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(General Partner for Foremost Industries LP)

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Richard B. (Rick) Kuzyk
President
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